

STATE GOVERNMENT FINANCES

**Permitted additional borrowings during
FY2021-FY2025 beyond base limit
allowed states to incur a fiscal deficit
higher than 3% of GSDP**

DECEMBER 2025





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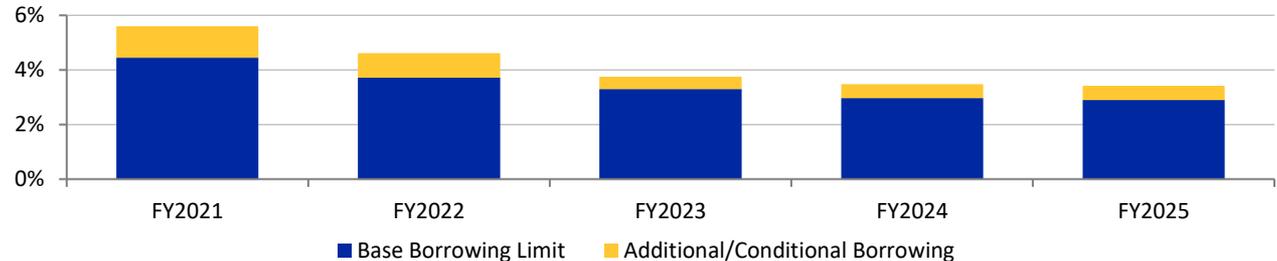
Additional borrowing of 0.5-1.1% of GSDP over and above the base limit, has allowed some states to incur a fiscal deficit higher than 3% of GSDP since FY2021.

Net SGS in FY2027 is estimated at Rs. 8.8-9.4 trillion, while gross SGS is assessed at Rs. 13-13.6 trillion based on our current assumptions.

During FY2021-FY2026, the Government of India (GoI) and/or the 15th Finance Commission (FC) permitted additional borrowings to the state governments that were over and above the base borrowing limits affixed for those fiscals. Such additional borrowings were allowed to states mainly to incentivise them to undertake reforms in prescribed areas and also to augment their capital spending. While the states' base borrowing limit was between 3.0-4.0% of the Gross Domestic State Product (GSDP) during FY2021-FY2026, an estimated additional borrowing of 0.5-1.1% of the GSDP (including interest free capex loans from the Centre) over and above the base limit, allowed many of them to incur a fiscal deficit higher than 3% of the GSDP.

For FY2027-FY2031, the borrowings of the states will be impacted by the fiscal deficit targets that will be recommended by the 16th FC, apart from any additional borrowings permitted by the GoI/FC. Based on ICRA's estimate of FY2027 GDP and assuming a baseline 3% fiscal deficit target for the state governments, we have forecast the aggregate net borrowing limit of the state governments at Rs. 11.8 trillion for FY2027. Assuming that 75-80% of this would be funded through state government securities (SGS), we estimate the net SGS issuance at Rs. 8.8-9.4 trillion in FY2027. Accounting for estimated redemptions of Rs. 4.2 trillion in FY2027, the gross SGS is assessed at Rs. 13-13.6 trillion in FY2027.

EXHIBIT: Resources as proportion of GSDP available for 28 states to finance their fiscal deficit





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